

Islam's Approach to Ethical Investment

Given that many ethical funds have similar characteristics as Islamic funds, it is important for ethical investors attracted by the appeal of Islamic principles as well as the performance of Islamic investments to understand that there are additional prohibitions that must be applied on the products offered. These restrictions which are essentially self-imposed based on belief and conviction act a moral compass; the monitoring of the prohibitions by a Religious (Shari'ah) Supervisory Board may have prevented Islamic financial institutions to deviate from a faith-based system and absorb the shocks within the conventional financial system.

The important principles for Islamic financial instruments for participation and investments that require strict adherence, while providing good returns, are:

- Investments must be free of interest, speculation and gambling, all are considered as forms of exploitation
- Investments are made in permissible activities
- Investments must be separately approved by an independent Shari'ah supervisory board to ensure Shari'ah principles are strictly adhered to and deviations and wayward business practice penalised, for example in Islamic finance requires penalties to be paid to charity

"The ethical principles on which Islamic finance is based may bring banks closer to their clients and to the true spirit which should mark every financial service," the Vatican's official newspaper Osservatore Romano said in an article its latest March 2009 issue.

Wealth and Islam

Islam has a unique dispensation on the theme of wealth, its ownership, distribution and social relationship. Islam enjoins wealth creation not for its own sake.

The theme of Islamic dispensation of wealth is treated as a deeply moral study of self and society. The true nature of wealth in Islam requires social preferences and market exchange mechanisms that are ethicised by human consciousness of the Moral Law. Islam gives precise moral injunctions as to what are, and are not acceptable kinds of wealth. They point out how individual preferences on wealth formation ought to be utilised within the social meaning.

According to Shaikh Yusuf Talal DeLorenzo, well-known and respected Shari'ah advisor and Islamic scholar as well as also author of the three volume "Compendium of Legal Opinions on the Operations of Islamic Banks" the first English reference on the fatwa (religious ruling) issued and published by the Institute, business, in the Qur'anic sense of "profitable trade" or *tijarat'un rabiha* is business that brings blessings to those who

conduct it. Obviously, profits are important as ends, but the means by which those profits are earned are even more important. Indeed, the reason for the emphasis in the Shari'ah on proper transacting is that Islam accords great importance to the economic welfare of society.

What is Islamic Banking?

Islamic banking has the same purpose as conventional banking except that it operates in accordance with the rules of Shari'ah, known as *Fiqh al-Muamalat* (Islamic rules on transactions). Islamic banking activities must be practiced consistent with the Shari'ah and its practical application through the development of Islamic economics. Many of these principles upon which Islamic banking is based are commonly accepted all over the world, for centuries rather than decades. These principles are not new but arguably, their original state has been altered over the centuries.

The principle source of the Shari'ah is The Qur'an followed by the recorded sayings and actions of Prophet Muhammad (pbuh) – the Hadith. Where solutions to problems cannot be found in these two sources, rulings are made based on the consensus of a community learned scholars, independent reasoning of an Islamic scholar and custom, so long as such rulings to not deviate from the fundamental teachings in The Qur'an.

It is evident that Islamic finance was practiced predominantly in the Muslim world throughout the Middle Ages, fostering trade and business activities. In Spain and the Mediterranean and Baltic States, Islamic merchants became indispensable middlemen for trading activities. It is claimed that many concepts, techniques, and instruments of Islamic finance were later adopted by European financiers and businessmen.

The revival of Islamic banking coincided with the world-wide celebration of the advent of the 15th Century of Islamic calendar (Hijra) in 1976. At the same time financial resources of Muslims particularly those of the oil producing countries, received a boost due to rationalisation of the oil prices, which had hitherto been under the control of foreign oil Corporations. These events led Muslims' to strive to model their lives in accordance with the ethics and principles of Islam.

Disenchantment with the value neutral capitalist and socialist financial systems led not only Muslims but also others to look for ethical values in their financial dealings and in the West some financial organisations have opted for ethical operations.

Status of Islamic Banking

Islamic banking is no longer a novel experiment. When the concept of Islamic banking with its ethical values was propagated, financial circles the world over treated it as a utopian dream. Having lived for centuries under the 'valueless' capitalist economic system, they asked what ethics had to do with finance?

Besides their range of equity, trade-financing and lending operations, Islamic banks also offer a full spectrum of fee-paid retail services that do not involve interest payments, including checking accounts, spot foreign exchange transactions, fund transfers, letters of credit, travellers' checks, safe-deposit boxes, securities safekeeping investment management and advice, and other normal services of modern banking. Islamic banking because of its value-orientated ethos enables it to draw finances from both Muslims and non-Muslims alike.

Islamic banks are evolving financial and investment instruments that are not only profitable but are also ethically motivated. The ever-increasing application and innovation of the methodologies associated with derivative instruments that revolutionised the global financial industry have also led to a global financial crisis because of the excess greed for profit and the immense uncertainty and risk associated with these types of transactions. There are doubts associated with the permissibility of derivative instruments under Islamic finance generally.

Addressing issues to resolve the global financial crisis world leaders called for a set up on the basis of capitalism of entrepreneurship where banks finance economic development in the real economy, as opposed to the set up on the basis of capitalism of speculation whereby banks derive excessive profit from speculative transactions that do not make any contribution to the real economy.

Shari'ah Supervisory Board [Religious Board]

Islamic financial institutions must adhere to the best practices of corporate governance however they have one extra layer of supervision in the form of religious boards. The religious boards have both supervisory and consultative functions. Since the Shari'h scholars on the religious boards carry great responsibility, it is important that only high calibre scholars are appointed to the religious boards.

An Islamic financial institution is required to establish operating procedures to ensure that no form of investment or business activity is undertaken that has not been approved in advance by the religious board. The management is also required to periodically report and certify to the religious board that the actual investments and business activities undertaken by the institution conform to forms previously approved by the religious board.

Islamic financial institutions that offer products and services conforming to Islamic principles must, therefore, be governed by a religious board that act as an independent Shari'ah Supervisory Board comprising of at least three Shari'ah scholars with specialised knowledge of the Islamic laws for transacting, fiqh al mu'amalat, in addition to knowledge of modern business, finance and economics.

They are responsible primarily to give approval that banking and other financial products and services offered comply with the Shari'ah and subsequent verification that of the operations and activities of the financial institutions have complied with the Shari'ah principles (a form of post Shari'ah audit). The Shari'ah Supervisory Board is required to issue independently a certificate of Shari'ah compliance.

The day-to-day application of Shari'ah by the Shari'ah Supervisory Boards is two-fold. First, in the increasingly complex and sophisticated world of modern finance they endeavours to answer the question on whether or not proposals for new transactions or products conform to the Shari'ah. Second, they act to a large extent in an investigatory role in reviewing the operations of the financial institution to ensure that they comply with the Shari'ah.

The concept of collective decision-making, in other words, decisions made by more than one scholar, is especially important. Shari'ah Supervisory Boards function is to ensure that decisions are not unilateral, and that difficult issues of finance receive adequate consideration by a number of qualified people.

Shaikh Yusuf Talal DeLorenzo, Islamic scholar, position is that unless a financial product or service can be certified as Shari'ah compliant by a competent Shari'ah supervisory board, that product's authenticity is dubious. At that point, it will be the responsibility of the individual investor or consumer to determine on his or her own that the product complies with the principles and precepts of the Shari'ah.

Shariah Authenticity

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Rules of Permissibility

Muslims believe that all things have been provided by God, and the benefits derived from them, are essentially for man's use, and so are permissible except what is expressly prohibited in The Qur'an or Hadith. When guidance is not clearly given in the Qur'an there are several other sources of law. For example, guidance can be sought from Fiqh, which means 'understanding' and is the science of jurisprudence: the science of human intelligence, debate and discussion

Other Key Prohibitions

Islam not only prohibits dealing in interest and investment in unlawful activities that Islam deems harmful to society, but also transactions involving excessive uncertainty (gharar) and all forms of gambling (maysir).

Islamic Banking Principles

The Shari'ah prohibits the payment of charges for the renting of money (riba, which in the definition of Islamic scholars covers any excess in financial dealings, usury or interest) for specific terms, as well as investing in businesses that provide goods or services considered contrary to its principles (Haram, forbidden). While these principles were used as the basis for a flourishing economy in earlier times, it is only in the late 20th century that a number of Islamic banks were formed to apply these principles to private or semi-private commercial institutions within the Muslim community.

"While a basic tenant of Islamic banking - the outlawing of riba, a term that encompasses

not only the concept of usury, but also that of interest - has seldom been recognised as applicable beyond the Islamic world, many of its guiding principles have. The majority of these principles are based on simple morality and common sense, which form the bases of many religions, including Islam.

"The universal nature of these principles is immediately apparent even at a cursory glance of non-Muslim literature. Usury was prohibited in both the Old and New Testaments of the Bible, while Shakespeare and many other writers, particularly those writing in the 19th century, have attacked the barbarity of the practice. Much of the morality championed by Victorian writers such as Dickens - ranging from the equitable distribution of wealth through to man's fundamental right to work - is clearly present in modern Islamic society.

"Although the western media frequently suggest that Islamic banking in its present form is a recent phenomenon, in fact, the basic practices and principles date back to the early part of the seventh century." (Islamic Finance: A Euromoney Publication, 1997)

Profit-and-Loss Sharing

While Islam employs various practices that do not involve charging or paying interest, the Islamic financial system promotes the concept of participation in a transaction backed by real assets, utilising the funds at risk on a profit-and-loss-sharing basis. Such participatory modes used by Islamic banks are known as Musharakah and Mudarabah. This by no means implies that investments with financial institutions are necessarily speculative. This can be excluded by careful investment policy, diversification of risk and prudent management by Islamic financial institutions.

The concept of profit-and-loss sharing in an enterprise, as a basis of financial transactions is a progressive one as it distinguishes good performance from the bad and the mediocre. This concept therefore encourages better resource management. The Islamic sukuk system is similar to bonds of capitalist system, but in sukuk, money is invested concrete projects and profit share is distributed to clients instead of interest earned.

Pricing Transactions Linked to Interest rate Benchmark

There are continuing debates on whether the spirit of Shari`ah is being violated by the practice of "benchmarking" linked interest rate benchmark such as London Interbank Offered rate (LIBOR) plus an agreed mark-up in also pricing returns on Islamic finance transactions . At a very fundamental level, the reason for the debates is the lack of understanding to clearly discern the difference between the use of LIBOR as a benchmark for pricing and the use of non-Shari`ah compliant assets as a determinant for returns.

However, benchmarking touches upon the integrity of Islamic Finance as a whole, and the concept of Shari`ah-compliance vs Shari`ah-based approach in particular. There are practical challenges delaying a switch to participation-based structures, such as Musharakah and Mudarabah, that require financiers to participate in the underlying asset in a financing transaction.

Glossary of Financial Terms From Z-A

Z

This glossary is not limited to Islamic terms and contains Arabic and English terms that are also referred to in the study of Islamic economics, banking and insurance.

A B C D E F G H I J K L M N P Q R S T U W Z

Zahiri	A school of thought in Islamic jurisprudence of <i>Sunni</i> branch of Islam, the more well-known being <i>Hanafi</i> , <i>Hanbli</i> , <i>Maliki</i> and <i>Shafi'i</i> . In Shia branch of Islam the well-know school is the Jafri school.
Zakah	See <i>Zakat</i> .
Zakat (1)	Lit: blessing, purification, increase or cultivation of good deeds. An obligatory contribution or tax which is prescribed by Islam on all persons having wealth above an exemption limit at a rate fixed by the <i>Shari'ah</i> . According to the Islamic belief <i>Zakat</i> purifies wealth and souls. The objective is to take away a part of the wealth of the well-to-do and distribute it among the poor and needy. Also known as <i>Zakah</i> .

Zakat (2)	A tax which is prescribed by Islam on all persons having wealth above an exemption limit at a rate fixed by the <i>Shari'ah</i> . According to the Islamic belief <i>Zakat</i> purifies wealth and souls. The objective is to take away a part of the wealth of the well-to-do and to distribute it among the poor and the needy. It is levied on cash, cattle, agricultural produce, minerals, capital invested in industry, and business etc. The distribution of <i>Zakah</i> fund has been laid down in the <i>Qur'an</i> (9:60) and is for the poor, the needy, <i>Zakat</i> collectors, new converts to Islam, travellers in difficulty, captives and debtors etc. It is payable if the owner is a Muslim and sane. <i>Zakat</i> is the third pillar of Islam. It is an obligatory contribution which every well-off Muslim is required to pay to the Islamic state, in the absence of which individuals are required to distribute the <i>Zakat</i> among the poor and the needy as prescribed by the <i>Shari'ah</i> .
Zakat al-Fitr	Payable by every Muslim able to pay, at the end of <i>Ramadan</i> (the month of fasting). This is also called <i>Zakat al-Nafs</i> (Poll Tax).
Zakat al Maal	An annual levy on the wealth of a Muslim (above a certain level). The rate paid, differs according to the type of property owned. This tax is earmarked for amongst others for the poor and needy.
Zulm	Injustice, oppression, exploitation, encroaching upon the rights of anyone or usurping other's rights; not giving proper recompense in an exchange by way of any illegal act or coercion.

Glossary of Financial Term - W

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A B C D E F G H I J K L M N P Q R S T U W Z

Wa'ad	Promise, undertaking: A promise to buy or sell certain goods in a certain quantity at a certain time in future at a certain price.
Wa'd	See <i>Wa'ad</i> .

Wadah	Promise which does not create contractual rights and obligations, may be binding or unbinding.
Wadia	Resale of goods with a discount on the original stated cost
Wadiah	Custody. Lit: safekeeping deposit or <i>Amanah</i> . In Islamic banking, wadiah refers to the deposited property, the acceptance of sums of money for safe-keeping in a Shari'ah-compliant framework, under which it will be repaid. Also see <i>Al-Wadiah</i> .
Waheed	See <i>Wahid</i> .
Wahid	God's Unity. Arabic term referring to the doctrine of Oneness (of God). Islam holds God (<i>Allah</i>) is One (<i>wahid</i>) and Unique (<i>ahad</i>).
Wajib	Obligatory, compulsory, mandatory.
Wali	Guardian.
Wakala	See <i>Wakalah</i> .
Wakalah	A contract of agency in which one person appoints someone else to perform a certain task on his behalf, usually against a certain fee. Can be commutative or non-commutative. Also termed as <i>Al-wakala</i> .
Wakalah bil ajr	Same as <i>Wakalah</i> .
Wakalah Khassah	Speical agency
Wakalatul Istismar / Ijaratu Alshkas	Agency services for management of funds against a pre-agreed fee irrespective of the profit or loss on the relevant portfolio.

Wakil	In a wakala contract, a representative (agent), who acts on behalf of the principal/investor.
Wajib	Obligatory.
Waqaf	See <i>Waqf</i> .
Waqf	Lit.: hold, confinement or prohibition. Technically appropriation or tying-up of a property in perpetuity so that no propriety rights can be exercised over their use. The word <i>waqf</i> means an endowment of charitable trust and is used in Islam in the meaning of holding certain property and preserving it for the confined benefit of certain philanthropy and prohibiting any use or disposition of it outside that specific objective. This definition accords perpetuity to waqf, i.e., it applies to non-perishable property whose benefit can be extracted without consuming the property itself. Therefore waqf widely relates to land and buildings. The <i>waqf</i> property can neither be sold nor inherited or donated to anyone. There are three main kinds of <i>Waqf</i> in Islamic jurisprudence: religious <i>waqf</i> , philanthropic <i>waqf</i> and family <i>waqf</i> .
Wasiyrah	See <i>Wasiyyat</i> .
Wasiyyat	Will. Bequest.

Glossary of Financial Terms - U

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Ujrah	The financial charge for using services (wage, salary, allowance, commission, fee)
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Ukhuwah	Spirit of brotherhood.
Ulama	Scholars, Muslim scholars trained in Islam and Islamic law.
Ulema	See <i>Ulama</i> .
Ummah	The Diaspora or 'Community of the Believers' (<i>ummat al mu'minin</i>), the worldwide community of Muslims.
Umra	See <i>Umrah</i> .
Umrah	Lit: visiting or attending. It is a mini-pilgrimage to <i>Makkah</i> which is not compulsory, but highly recommended, and can be performed at any time of the year.
Uqood-e-mu'awadha	Commutative, characterised by substitution.
Uqood Ghair mu'awadha	Non-Commutative.
Urboun	See <i>Arbun</i> .
Urf	Custom. Usage, common practice. <i>Urf</i> is one of the sources of the Islamic law as long as it does not contradict the primary source of <i>Shari'ah</i> i.e. the <i>Qur'an</i> and the <i>Sunnah</i> .
Ushr	Ten percent (in some cases five percent) of the agriculture produce payable by the Muslim as a part of his religious obligation, like <i>Zakah</i> , mainly for the benefit of the poor and the needy.
Usufruct	A legal right to use and derive profit from property belonging to someone else provided that the property itself is not damaged.

Usul al-Fiqh	Islamic legal theory.
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Glossary of Financial Terms - T

This glossary is not limited to Islamic terms and contains Arabic and English terms that are also referred to in the study of Islamic economics, banking and insurance.

A B C D E F G H I J K L M N P Q R S T U W Z

Ta'awuni	A principle of mutual assistance.
Tabarru	Act of charity out of one's own free will without any compulsion or obligation. A donation covenant in which the participants agree to mutually help each other by contributing financially. A contract to provide somebody any good or service without compensation in return. In <i>Takaful</i> , a contract where a participant agrees to donate a pre-determined percentage of the contribution to a <i>Takaful</i> scheme to provide assistance to fellow participants. In this way the participants fulfill the obligation of mutual assistance and shared responsibility should another participant suffer a loss. Also referred to as <i>Aqd tabaru</i> .
Tafwid	To entrust.
Tahsinat	To lead to decent life.
Takafol	See <i>Takaful</i> .
Takaful	An Arabic word meaning "guaranteeing each other" or joint guarantee through mutual support and shared responsibility. A form of Islamic insurance based on the Quranic principle of mutual assistance (<i>ta'awuni</i>). Structured as a charitable collective pool of funds based on the idea of providing mutual protection and shared responsibility/joint risk sharing in the event of a loss by one of its members. <i>Takaful</i> schemes are designed to avoid the elements of conventional insurance (i.e. interest and gambling) as well as investment of <i>Takaful</i> funds in activities that are prohibited by the <i>Shari'ah</i> .

Takaful ta'awuni al	Coperative concept of risk-sharing and mutual self-help by members of a group or scheme.
Tam'in	Insurance.
Tamlikat	Contract: acquiring of ownership.
Tamthil	Similarity or likeness
Taqyidat	Contract: restrictions.
Taslif	A sale by advance payment.
Tauthiqat	Contract: security.
Tawakkul	Trust in God for the result after one has undertaken all necessary effort. It is one of the important values for Muslims. After making all necessary efforts, a Muslim believes that the result are in hands of GOD.
Tawaruq	See <i>Tawarruq</i>
Tawarruq	Reverse murabaha for the purpose acquiring cash through trade activities. As used in personal financing, a client with a genuine financial need buys a commodity on credit (deferred payment) from the bank on a deferred payment basis and then immediately resells it to a third party for immediate cash. This is not a widely approved practice as Classical Muslim jurists are divided on the issue of Shar'iah permissibility of <i>Tawarruq</i> . There is a view from Imam Ahmad Ibn Hanbal that <i>Tawarruq</i> is prohibited (<i>haram</i>). Another view from Imam Muhammad Hasan al-Shaibani, Imam Malik and of the two opinions narrated on behalf of Imam Ahmad Ibn Hanbal held that <i>Tawarruq</i> is discouraged (<i>makruh</i>). Imam Ibn Taimiyyah has considered Tawarruq as an exceptional dealing which is permitted in the case of necessity (<i>darura</i>), where the person is really in need of cash. Contemporary Muslim jurists are also divided on the issue of <i>Shari'ah</i> permissibility of <i>Tawarruq</i> . Central Bank of Malaysia (Bank Negara Malaysia) Shari'ah Advisory Council at its 51st meeting on the 28th July 2005 resolved that as a deposit product and financing based on the concept of <i>Tawarruq</i> , which is known as Commodity <i>Murabahah</i> , is

	permissible. The Shari'ah Advisory Council, Central Bank of Malaysia also resolved in 2006 that the use of ijarah sukuk and Shari'ah-compliant securities as underlying assets in <i>tawarruq</i> or <i>murabahah</i> to manage liquidity in the Islamic financial system is permissible.
Tawheed	See <i>Tawhid</i> .
Tawhid	In Arabic it means attributing Oneness to Allah and describing Him as being One and Unique, with no partner or peer in His Essence and Attributes. Strictly singular; reference to One God.
Thaman	Exchange of all forms of currency.
Thawab	Reward.
Tijarah	Trade; Business

Glossary of Financial Terms - S

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Sadaqah	Charitable giving. An act of charity.
Sadaqah jariyah	An act of charity with perennial benefits.
Sadaqah al zara'i	Prohibition of a deed which, if permitted, may lead to another prohibited deed.

Sahih	Valid, said of a contract. Opp. <i>Batil</i> .
Salaf	Literally, payment in advance with deferred delivery. Also known as <i>Salam</i> . In the context of a loan, it refers to a loan which draws forth no profit for the creditor and is slightly different from <i>Qard</i> in that an amount given as Salaf cannot be called back before it is due.
Salah	See <i>Salat</i> .
Salam	Advance purchase or a type of sale in which the full price of the goods is paid in advance and the goods are delivered later at a specified date in the future. A sale in which both the delivery of the object of sale and the payment of its price are delayed. It is similar to a modern forward sale contract. Under <i>Shari'ah</i> , a sale cannot normally be effected unless the goods are in existence at the time of the bargain. However, this type of sale is an exception provided the goods are defined and the date of delivery is fixed. The object of the sale must be tangible goods that can be defined as to quantity, quality and workmanship. The mode of financing is often applied in the agricultural sector, where the bank advances money without interest for various inputs and in exchange receives a share of the produce, which it then sells.
Salat	Obligatory prayers said five times a day, practiced by Muslims in supplication to <i>Allah swt</i> .
Sallallahu Alayhi Wassalam	Abbreviated as S.A.W. meaning "peace and blessing of God upon him" with reference to Prophet Muhammad. More frequent term used is pbuh.
Sarf	Currency exchange. Contract for exchange of gold, silver, and currencies whether the currency or commodity exchanged is the same from both sides or is different, that is, whether dinars are exchanged with <i>dinar</i> or <i>dinars</i> are exchanged with <i>dirhams</i> .
Saw'am-bi-sawaa	Equal for equal (in exchange transactions).
Shafi'is	"One of the four well-known schools of thought in Islamic jurisprudence or religious law engaged in the interpretation of the <i>Qur'an</i> and <i>Sunnah</i> . Founded by one of the classical jurists, Imam Abdullah Muhammad ibn

	<p>Idris al-Shafi'i (d. 804 AD), followers are known as <i>Shafis</i>. Others are <i>Hanbalis</i>, <i>Hanafis</i> and <i>Malikis</i>. The <i>Shafi'i</i> school is considered the easiest school in terms of social and personal rules. <i>Zahiri</i> is another known school developed by Daud ibn Khalaf (d. 883 AD).</p> <p>The <i>Jafri Shia Islam</i> school in Islamic jurisprudence was developed by Imam Ja'far al-Sadiq (d. 765) at about the same time its <i>Sunni legal fiqh</i> counterparts were being codified. It was distinguished from Sunni law on matters regarding inheritance, religious taxes, commerce, and personal status."</p>
Shafis	See <i>Shafi'is</i>
Shari'ah	<p>Often referred to as Islamic law. <i>Shari'ah</i> as a legal case did not exist as a legal case at the time the <i>Qur'an</i> was revealed. Refers to the laws contained in and derived from the <i>Qur'an</i> and the <i>Sunnah</i> (practice and traditions of the Prophet Muhammad (pbuh). It is primarily concerned with a set of values that are essential to Islam and the best manner of their protection. Shari'ah literally means a way to the entering hole or a path apparently to seek felicity and salvation. It is a system that is all too often misunderstood and misinterpreted in the West. The method of finding solutions to new issues in the light of the goals and principles of Islam are <i>Ijtihad</i> (independent reasoning), <i>Ijma</i> (consensus) and <i>Qiyas</i> (analogy), these solutions are all upheld and supported by The <i>Qur'an</i> and the <i>Sunnah</i>. The essential values of the <i>Shari'ah</i> include those of faith, life, intellect, lineage, property, protection of honour, fulfillment of contracts, preservation of ties of kinship, honouring the rights of one's neighbour in so far as the affairs of this world are concerned, and the love of God, sincerity, trustworthiness and moral purity, in relationship to the hereafter.</p>
Shari'ah Advisor	<p>An independent Islamic scholars who advises Islamic financial institutions, providing guidance and supervision in the development of Shari'ah compliant products and maintaining Shari'ah compliant operations. Usually a classically trained Islamic legal scholar. While some Islamic financial institutions consult individual Shari'ah advisors, most establish a committee of Shari'ah advisors, often known as a <i>Shari'ah Board</i> or <i>Shari'ah Supervisory Board</i>. Also see <i>Shari'ah Scholar</i>.</p>
Shari'ah Board	See <i>Shari'ah Supervisory Board</i>
Shari'ah-compliant	<p>"Term used in Islamic finance to denote that a financial product or activity that complies with the requirements of the <i>Shari'ah</i>, for example <i>Shari'ah compliant financing</i> or <i>Shari'ah compliant investment</i>. Islamic finance derives its principles from the Shari'ah, which is based on the <i>Qur'an</i> and</p>

	<p>the <i>Sunnah</i>. The key defining characteristics in the application of Shari'ah to financing structures are that transactions should be based on tangible assets, and should not bear interest (<i>riba</i>). The generation of profit is very much encouraged, and many commentators also identify risk sharing as being one of the quintessential features of any Islamic financing. Shari'ah principles also forbid uncertainty (<i>gharar</i>), speculation or excessive uncertainty (<i>maysir</i>) and gambling (<i>qimar</i>), and well as activities in certain prohibited areas.</p>
Shari'ah Scholar	<p>Islamic Shari'ah scholars who are well-versed with the necessary knowledge and competencies in the Shari'ah and its approaches to economic and financial issues.</p>
Shari'ah Supervisory Board	<p>An authority, usually a committee of Islamic scholars well-versed and competent in <i>Shari'ah</i> and its approaches to economics and finance, appointed by an Islamic financial institution, which supervises and ensures both the <i>Shari'ah</i> compliance of new product development and the operations.</p>
Shirkah	<p>Sharing, partner. A contract between two or more persons who launch a business or financial enterprise to make profit. In the present Islamic banking and finance terminology, <i>Shirkah</i> may include both <i>Mudarah</i> and <i>Musharakah</i> and various other <i>Musharakah</i>-like business and commercial partnerships</p>
Shirkatulaqd	<p>A contract between two or more persons who launch a business or financial enterprise to make profit. Generally, it is termed as '<i>shirkah</i>'.</p>
Shirkatulmilk	<p>Partnership by ownership, which could be automatic as in the case of inheritance by e.g. two brothers, or optional such as two persons purchasing a property jointly (not for commercial purpose).</p>
Sharikah-al-Mufawadah	<p>A partnership among the equal partners. Unlimited partnership.</p>
Sharikah-al-Sanai	<p>Same as <i>Sharikah-al-Abdan</i>.</p>
Sharikah-al-Wujuh	<p>A partnership on the basis of credibility.</p>

Speculation	A a process that relies on the analysis of a lot of economic and financial data, companies' financial reports, political decisions, information about management skills and aptitude and the personal profile of the decision maker. Financiers would call this as financial planning, budgeting, or investing. Finance is concerned with risk reduction. Speculation involves risk-taking.
Suftaja	See <i>Suftajah</i> .
Suftajah	A type of banking instrument used for the delegation of credit during the early Muslim period, especially the Abbasides period (749 to 1258 AD). It was used to collect taxes, disburse government dues and transfer funds by merchants and was commonly used by travelling merchants. It involved three parties: the payor, the payee and the transmitter. <i>Suftajah</i> could be payable on a future date or immediately. A suftajah held by one party could be endorsed to another party. The Arab merchants were using endorsements (<i>hawalah</i>) since the days of Prophet Muhammad (pbuh). It differs from the modern bill of exchange in that a sum of money transferred by suftajah had to keep its identity and payment had to be made in the same currency.
Sukuk	Arabic name for a financial certificate. Similar characteristics to that of a conventional bond with the key difference being that they are assets backed; a <i>sukuk</i> represents proportionate beneficial ownership in the underlying tangible asset(s) of particular projects or investment activity. The assets are leased to the client to yield the return on the <i>sukuk</i> . Fixed income, interest-bearing bonds are not permissible by the <i>Shari'ah</i> . <i>Sukuk</i> must comply with the <i>Shari'ah</i> requirements and may be traded in the market.
Sunnah	Literally, custom, habit or way of life. Commonly understood as the sayings, deeds or tacit approval of the Prophet Muhammad (pbuh) as recorded in the books of <i>Hadith</i> .
SWT	It refers to " <i>Subhanahu wa-ta'ala</i> ", an Islamic Arabic phrase meaning, "glorious and exalted is He (<i>Allah</i>).". The phrase (often abbreviated to " <i>swt</i> ") appears after the name of <i>Allah</i> in Islamic texts such as the <i>Qur'an</i> and the <i>Hadith</i> . Saying this phrase is seen as an act of reverence and devotion towards <i>Allah</i> among Muslims

Glossary of Financial Terms - R

This glossary is not limited to Islamic terms and contains Arabic and English terms that are also referred to in the study of Islamic economics, banking and insurance.

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Rab-al-maal	See <i>Rab ul-Mal</i>
Rab al-Mal	See <i>Rab ul-Mal</i>
Rab ul-Mal	Owner of capital. In a <i>mudarabah</i> contract the person who invests the capital (the capital owner or financier); the investor in <i>mudarabah</i> contract.
Rahn	See <i>Rihn</i> .
Ramadan	Month of fasting for Muslims. It is the ninth month of Islamic calendar, during which Muslims fast; it is also a time for reflection, intensive prayer and self-restraint.
Ras-al-Mal	<p>Capital; the money or property which an investor (<i>rabb al-mal</i>) invests in a profit-seeking venture, often in a partnership as in <i>mudarabah</i> or <i>musharakah</i>.</p> <p>Reinsurance Insurance bought by insurance companies (insurers). A reinsurer, such as an reinsurance company, assumes part of the riask and part of the premium taken by the original insurer. Reinsurance effectively increases an insurer's capital and therefore its capacity to sell more insurance. Reinsureres do no pay policyholders' claims, instead they reimburse insurers for claims paid by the insurers.</p>
Reinsurance	Insurance bought by insurance companies (insurers). A reinsurer, such as an reinsurance company, assumes part of the risk and part of the premium taken by the original insurer. Reinsurance effectively increases an insurer's capital and therefore its capacity to sell more insurance. Reinsurers do no pay policyholders' claims, instead they reimburse insurers for claims paid by the insurers.

Religious Board	Religious board have both consultative and supervisory functions. Also see Shari'ah Supervisory Board
Retakaful	"Reinsurance based on Islamic principles. It is a mechanism used by direct insurance companies to protect their retained business by achieving geographic spread and obtaining protection, above certain threshold values, from larger, specialist reinsurance companies. Reinsurance has been defined as "insurance of the liabilities of the direct insurer". Reinsurance of Takaful business on Islamic principles is known as <i>Retakaful</i> ."
Riba	Lit: increase or addition. Technically it denotes any increase or addition to capital obtained by the lender as a condition of the loan. In simple terms riba covers any return on money on money, whether the interest rate is fixed, floating, simple or compounded and at whatever rate. <i>Riba</i> , in all forms, is prohibited in Islam as it is considered an unjust return that leads to unjust enrichment. Commonly understood as "interest" on lending though the legal definition goes beyond just interest. (one of the three fundamental prohibitions in Islamic finance, the other two being riba gharar maysir).
Riba al-buyu	Usury of trade. Another name for <i>Riba al-fadl</i> .
Riba al-fadl	A sale transaction in which a commodity is exchanged for the same commodity but unequal in amount, such as unequal exchange involving larger amount of low quality goods with smaller amount better quality goods, resulting in an excess in exchange. The concept of <i>Ribal al fadl</i> refers to exchange and sale transactions in trade. To avoid <i>riba-al-fadl</i> the exchange of commodities from both sides should be equal and instant. <i>Riba al-fadl</i> was prohibited by Prophet Muhammad (pbuh) to forestall riba from creeping into the economy. Also known as <i>Riba al-buyu</i> .
Riba al-diyun	Interest/usury of debt. Another name for <i>Riba al-nasiah</i> .
Riba al-nasiah	Interest-based lending. <i>Riba</i> of delay or usury of debt, due to exchange not being immediate with or without excess on one of the counter-values. Increment on the principal of a debt or loan payable by the borrower. It refers to the practice of lending money for any length of time on the understanding that the borrower would return to the lender the amount originally lent together with an increase on the loan amount, in consideration of the lender having allowed the borrower time for repayment. <i>Usury</i> of debt was an established practice amongst Arabs during the pre-Islamic period. The increment was known as riba al-nasia.

	Interest in all conventional banking transactions come under the scope of <i>Riba al-nasiah</i> . Also known as <i>Riba al-diyun</i> .
Ribh	Root of <i>murabaha</i> Cost plus Profit It is referring to a sale where a seller's sale an objective to others, where the cost of object is known for buyer.
Real Asset	Physical or <i>tangible</i> or identifiable assets such as gold, land, equipment, patents, etc. Opposite of a financial asset.
Rihn	Pledge. Collateral; technically and legally, it means to pledge or lodge a real or tangible property of material value as security for a debt or pecuniary obligation so as to make it possible for the creditor to recover the debt, in case of non-payment or default, by selling the pledged property. Also known as <i>Al-Rahn</i> or <i>Rahn</i> .
Ruq'a	Banking instrument of the early Muslim period. It was a payment order to draw money from the bank.
Rushd	Age of discretion, maturity, puberty, majority, as in <i>Takaful</i> .

Glossary of Financial Terms - P

This glossary is not limited to Islamic terms and contains Arabic and English terms that are also referred to in the study of Islamic economics, banking and insurance.

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PBUH	"Peace Be Upon Him. Muslims say peace be upon him (pbuh) after every mention of Prophet Muhammad's name, as a mark of respect. The Arabic translation of peace be upon him is <i>sallallahu alayhi wa sallam</i> which is usually abbreviated as S.A.W."
Permanent	See <i>Musharakah</i> , Permanent

Musharakah	
PLS	Profit-and-Loss-Sharing. The term used to describe a mode of financing modes based on the principle of interest-free lending and featuring the use of <i>mudarabah</i> and <i>musharakah</i> .
PSA	Participants Special Account, as in <i>Takaful</i> .

Glossary of Financial Terms - N

This glossary is not limited to Islamic terms and contains Arabic and English terms that are also referred to in the study of Islamic economics, banking and insurance.

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Najash	Prohibited practice of deceiving and inciting a potential buyer of goods during the course of pre-sale negotiations or bidding to secure a greater value than the true worth of the goods.
Nass	An Arabic word meaning "a known, or clear, legal injunction". Word or text with single meaning; text from the work of a jurist.
Nisab	Exemption limit for the payment of <i>zakat</i> . It is different for different types of wealth.
Non-Commutative	The contract of sale is in which seller gives the thing sold, and receives the no price or remuneration in return. Opp. to Commutative.

Glossary of Financial Terms - M

This glossary is not limited to Islamic terms and contains Arabic and English terms that are also referred to

in the study of Islamic economics, banking and insurance.

A B C D E F G H I J K L M N P Q R S T U W Z

Madhab	A Fiqh school or orientation characterised by differences in the methods or approaches by which certain sources and texts are understood and therefore differences in the Shari'ah rulings which are deduced from them. There are four well known schools of Islamic jurisprudence of religious law in Sunni Islam associated with the classical jurists who founded them (<i>Hanabali, Hanafi, Maliki</i> and <i>Shafi'i</i>).,
Madinah	The second holiest city in Islam located in the Kingdom of Saudi Arabia.
Mafhm al-Nass	The clear implication of the text
Maisir	See <i>Maysir</i>
Makkah	The first holiest city in Islam located in the Kingdom of Saudi Arabia and the birth place of Prophet Muhammad (pbuh).
Makruh	Reprehensible, discouraged. Technical term used by the jurists to classify actions with regard to their desirability. Makruh is said to be an action which is not clearly prohibited and not punished for committing.
Mal	Wealth, money, property; any valuable thing which can be possessed.
Maliki	"One of the four well-known schools of thought in Islamic Jurisprudence or religious law engaged in the interpretation of the <i>Qur'an</i> and <i>Sunnah</i> . Founded by one of the classical jurists, Imam Malik Ibn Anas (d. 795 AD), followers are known as <i>Malikis</i> . Others are <i>Hanbalis</i> , <i>Hanafis</i> and <i>Shafis</i> . <i>ahiri</i> is another known school developed by Daud ibn Khalaf (d. 883 AD). The Jafri Shia branch of Islam school in Islamic jurisprudence was developed by Imam Ja'far al-Sadiq (d. 765) at about the same time its legal <i>fiqh</i> counterparts of <i>Sunni</i> branch of Islam were being codified. It was distinguished from Sunni law on matters regarding inheritance, religious taxes, commerce, and personal status."
Ma'lum	Known; in the knowledge of the parties.

Manfa'ah	Lit: benefit or utility. The yield which a property produces. The term is often used by jurists to describe the usufruct (usage or services) associated with a given property, especially in leasing transactions.
Maqasid	Also, <i>Maqasid al-Shari'ah</i> .
Maqsad	The purpose or ultimate wisdom behind a law or legal ruling. The general objectives of Islamic law, <i>Shari'ah</i> .
Masalih Mursalah	Public interest as determined in the light of the rules of <i>Shari'ah</i> .
Maslaha	It refers to unrestricted public interest (welfare).invoked to prohibit or permit something on the basis of whether or not it serves the public's benefit or welfare. (Plural of <i>Masalih</i>). Literally, it means benefit. Technically, It refer to any action taken to protect any one of the five basic objectives of the <i>Shari'ah</i> , i.e protection of faith, life, progeny, property and reason.
Maslahat	"Interest" as in interest of the state.
Mauqoof	Suspended, Stopped for a while.
Maysir	Game of chance or gambling. A prohibited activity, as it is a zero-sum game just transferring the wealth not creating new wealth. Maysir is one of the three fundamental prohibitions in Islamic finance, the other two being <i>riba</i> and <i>gharar</i> .Gambling. One of three fundamental prohibitions in Islamic finance (the other two being <i>riba</i> and <i>gharar</i> . The prohibition on maysir is often used as the grounds for criticism of conventional financial practices such as speculation, conventional insurance and derivatives.
Mecca	See <i>Makkah</i> [The first holiest city in Islam located in the Kingdom of Saudi Arabia and the birth place of Prophet Muhammad (pbuh)]
Medina	See <i>Madinah</i> [The second holiest city in Islam located in Kingdom of Saudi Arabia]

Mezzanine	Debt A hybrid of debt and equity financing that is typically used to finance the expansion of existing companies.
Milkiyyah	Ownership.
Mirath	Inheritance.
Mithlam-bi-mithlin	Like for like (in exchange transactions).
Mithli	Fungible: perishable good.
Mslahah	See <i>Masalah</i> .
Mu'amalah	See <i>Mu'amalat</i> .
Mu'amalat	Dealing between the humans. Lit: economic transaction related to exchange of goods and services. Includes financial transaction. Technically, lease of land or of fruit trees for money, or for a share of the crop. See <i>Mu'amalah</i> and <i>Fiqh al mu'amalat</i> .
Mubah	Something that is permissible or lawful to use or trade in under the Shari'ah. Also <i>Halal</i> . <i>Mudaraba</i> See <i>Mudarabah</i> .
Mudarabah (1)	A profit-sharing partnership whereby the investor or capital provider (<i>Rab al Ma</i>) provides 100% the capital to another party: investment manager/entrepreneur (the <i>Mudarib</i>) to undertake a business or investment activity. Profit is shared between the parties on a pre-agreed ratio, Loss is borne by the investor (the provider of capital) only. The <i>Mudarib</i> loss is the expected share of income for the efforts put into the business or investment activity. The provider of capital has no control over the management of the business or investment activity.
Mudarabah (2)	A form of business partnership contract in which one party brings capital and the other personal effort to undertake a business enterprise, as

	<p>manager or entrepreneur. <i>Mudarabah</i> is mostly translated in English as profit and loss sharing. There is no loss sharing in a <i>Mudarabah</i> contract. Profit and loss sharing is a more accurate description of the <i>Musharakah</i> contract. The <i>Mudarabah</i> contract may better be represented by the expression profit sharing. The proportionate sharing in the profit is determined by mutual agreement; the loss, if any, is borne only by the owner of the capital, in which case the entrepreneur gets nothing for the labour put in. The capital provider or financier is known as '<i>rabal-maal</i>' and the entrepreneur as '<i>mudarib</i>'. In the Islamic Jurisprudence, different duties and responsibilities have been assigned to each of these two.</p>
Mudarabah Sukuk	<p>As a financing technique adopted by Islamic banks, it is a contract in which all the capital is provided by the Islamic bank while the business is managed by the other party. The profit is shared in pre-agreed ratios, and loss, if any, unless caused by negligence or violation of terms of the contract by the '<i>mudarib</i>' is borne by the Islamic bank. The bank passes on this loss to the depositors.</p>
Mudarib	<p>As a matter of principle the owner of the capital does not have a right to interfere in to the management of the business enterprise which is the sole responsibility of the manager/entrepreneur. However, the capital owner has every right to specify such conditions that would ensure better management of the capital invested. That is why sometime <i>Mudarabah</i> is also referred as sleeping partnership.</p>
Mudeer al takaful	<p><i>Takaful</i> Operator.</p>
Mufti	<p>Islamic banks practice <i>Mudarabah</i> in its both forms. In case of individual <i>Mudarabah</i> an Islamic bank provides finance to a commercial venture run by a person or a company on the basis of profit sharing. The joint <i>Mudarabah</i> may be between the investors and the bank on a continuing basis. The investors keep their funds in a special fund and share the profits without even the liquidation of those financing operations that have not reached the stage of final settlement. Many Islamic Investment Funds operate on the basis of joint <i>Mudarabah</i>.</p>
Muhtasib	<p>Ombuds person.</p>
Mujtahid	<p>Legal expert, or a jurist who expends great effort in deriving a legal opinion or interpreting sources of the law.</p>

Muqawala	A contract whereby one of the parties thereto undertakes to make a thing or to perform work with a consideration which the other party undertakes to provide.
Murabaha (1)	Lit.: sale on mutually agreed profit. Technically a contract of sale in which the seller declares his/her cost and profit. This is widely adopted as a mode of financing by a number of Islamic banks. As a financing technique, instead of lending money on interest, bank purchases goods desired by the client from a third party (instead of granting a loan) and resells it to the client at a predetermined mark-up on the original cost. Also termed as Cost-plus financing. By paying the higher price to the bank, the client has effectively obtained credit without paying interest. Some have questioned the legality of this financing technique with mark-up on cost because of its similarity to <i>riba</i> or interest. Also see <i>Murabaha Mu'ajjal</i> .
Murabaha (2)	Cost-plus financing - a contract sale between the financier or bank and its client for the sale of goods at a price which includes a profit margin agreed by both parties. As a financing technique, it involves the financier or bank purchasing goods required by the client. The goods are then sold to the client with a mark-up. Repayment, usually in instalments is specified in the contract. Some have questioned the legality of this financing technique with mark-up on cost because of its similarity to <i>riba</i> or interest.
Murabaha (3)	<p>Mark up or Cost plus financing. The word <i>Murabaha</i> is derived from the Arabic word <i>Ribh</i> that means profit. Originally, <i>Murabaha</i> was a contract of sale in which a commodity is sold onward at profit. The seller is obliged to tell the buyer the original cost price and the profit mark-up. This contract has been modified a little for application in the financial sector. In its modern form <i>Murabaha</i> has become the single most popular technique of financing amongst the Islamic banks all over the world. The <i>Murabaha</i> mode of finance operates in the following way: The client approaches an Islamic bank to get finance in order to purchase a specific commodity. An interest-based bank would lend the money on interest to this client. The client would go and buy the required commodity from the market. This option is not available to the Islamic bank, as it does not operate on the basis of interest. It cannot lend the money on interest. It cannot lend money with zero interest rate, as it has to make some profit to be in the business. The bank purchases the commodity on cash and sells it to the client on an agreed profit mark-up. The client buy the commodity from the bank on deferred payment basis. Thus, the client gets the commodity on credit for which financing would have been required and the Islamic bank makes some profit on the amount it has spent in acquiring the commodity and selling it on to the client.</p> <p>There are a number of requirements for a <i>Murabaha</i> transaction to be a real transaction to meet the Islamic standards of a legal sale. The whole</p>

	<p>of <i>Murabaha</i> transaction is completed in two stages. In the first stage, the client requests the bank to undertake a <i>Murabaha</i> transaction and promises to buy the specified commodity from the bank, however the promise under Shari'ah is not legally binding. If the client goes back on the promise to purchase, the bank risks the loss of full or part of the amount it has spent to acquire the goods, depending on whether the bank can find another buyer for the goods. In the second stage, the client purchases the good acquired by the bank on a deferred payments basis and agrees to a payment schedule. Another important requirement of <i>Murabaha</i> sale is that it must two sale contracts, one through which the bank acquires the commodity for the client and the other through which it sells the acquired commodity to the client - the two contracts should be separate and real transactions. Some have questioned the legality of this financing technique with mark-up on cost because of its similarity to <i>riba</i> or interest.</p> <p><i>Murabaha</i> form of financing is being widely used by the Islamic banks to satisfy various kinds of financing requirements. It is used to provide finance in various and diverse sectors e.g. in consumer finance for purchase of consumer durable such as cars and household appliances, in real estate to provide housing finance, in the production sector to finance the purchase of machinery, equipment and raw material etc. However, probably the most common and the most popular application of <i>Murabaha</i> is in financing the short-term trade for which it is eminently suitable. <i>Murabaha</i> contracts are also used to issue letters of credit and to provide financing to import trade.</p>
Murabaha Mu'ajjal	Literally it means a credit sale. Technically, it is a financing technique adopted by Islamic banks that takes the form of <i>Murabaha Muajjal</i> . It is a contract in which the bank earns a profit margin on his purchase price and allows the buyer to pay the price later. i.e. sale with deferred payment. Also known as <i>Bai Mu'ajjal</i> .
Murabaha, commodity	Commodity murabaha: A <i>murabaha</i> contract using certain specified commodities, through a metal exchange.
Murabahah	See <i>Murabaha</i> ,
Musaqah	A contract in which the owner of the garden/orchard shares the produce with another person (a worker) in return for services in irrigating the

	garden/orchard.
Musaqat	See <i>Musaqah</i> .
Musawamah	Bargain on price, where the seller does not disclose the original cost of the goods.
Musharaka	See <i>Musharakah</i> .
Musharakah (1)	This is a classical partnership agreement. All parties involved contribute to towards the financing of a venture. The parties share profits on a pre-agreed ratio while losses are shared according to each parties equity participation. Here again the reason is because in Islam, one cannot loose what they did not contribute. Management of the venture is carried out by all, some, or just one party member.
Musharakah (2)	<p>A contract of partnership in which two or more partners provide capital and share profits or losses as the case may be. An investment partnership with profit-and-loss sharing. A musharakah contract is similar to a <i>mudarabah</i> contract, the difference being that in a <i>musharakah</i> all the partners contribute to the capital and share in both the profit and the loss. They also have the right, but not the obligation to participate in the management. All partners have a right to participate in the management of the project. However, the partners also have a right to waive the right of participation in favour of any specific partner or person. Profit is shared as per-agreed ratio while the loss is shared in proportion to the capital contributed (money invested by each partner).</p> <p>The term also refers to a financing technique adopted by Islamic banks instead of lending on interest. It is an agreement under which the Islamic bank provides funds which are mingled with the funds of the client and both are entitled to share in the resulting profit on a pre-agreed ratio and share the loss in accordance with their capital contributions. Also termed as a joint venture. Two forms of <i>Musharakah</i> are: Permanent <i>Musharakah</i> and Diminishing <i>Musharakah</i>.</p>
Musharakah, Permanent	An agreement which allows equity participation and sharing of profit on a pro rata basis. The duration of the contract is unspecified making it suitable for Islamic banks to finance projects where funds have to be committed over a long period. In this form of <i>Musharakah</i> an Islamic bank participates in the equity of a project and receives a share of profit on a pro rata basis. The period of contract is not specified, so it can continue

	so long as the parties concerned wish it to continue. This technique is suitable for financing projects of a longer life where funds are committed over a long period and gestation period of the project may also be long.
Musharakah, Diminishing	An agreement which allows equity participation and sharing of profit on a pro rata basis, but also provides a method through which the bank keeps on reducing its equity in the project and ultimately transfers the ownership of the asset to the participant. This involves the participant simultaneously purchasing some of the bank's equity, progressively reducing it until the bank has no equity left and thus ceases to be a partner. Islamic banks use this mode for financing home purchases, commonly known as Islamic mortgages.
Musawamah	Bargain on price, where the seller does not disclose the original cost of the goods.
Mushtarik	Participant in <i>Takaful</i> .
Mustahab	Meritorious.
Muzara'a	Share-cropping: an agreement between parties in which one person agrees to till the land of the other person in return for a part of the produce of the land.

Glossary of Financial Terms - L

This glossary is not limited to Islamic terms and contains Arabic and English terms that are also referred to in the study of Islamic economics, banking and insurance.

A B C D E F G H I J K L M N P Q R S T U W Z

Loans with service charge	The Council of the Islamic Fiqh Academy established by the Organisation of Islamic Conference in its third session held in <i>Amman</i> , Jordan from 8 to 13 <i>Safar</i> 1407 H (11-16 October 1986), in response to a query from the
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	Islamic Development Bank has resolved that it is permitted to charge a fee for loan related service offered by an Islamic Bank. However, this fee should be within actual expenditures and any fee in excess to actual service related expenses is forbidden because it is considered usurious. See <i>Qard Hasan</i> .
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Glossary of Financial Terms - K

This glossary is not limited to Islamic terms and contains Arabic and English terms that are also referred to in the study of Islamic economics, banking and insurance.

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Kafil	Guarantor.
Kast Al Takaful	Takaful contribution (premium).
Khalabah	Misleading marketing; pursuing unaware and simple clients by over-projecting the quality of a commodity.
Khayr	Good, beneficial or well-being.
Kharaj	A levy on land use.
Khatar	A kind of gharar. <i>Khatar</i> is involved if the liability of any of the parties to a contract is uncertain or contingent, delivery of one of the goods of exchange is not in the control of any party or the payment from one side is uncertain.
Khiyar	Lit: option, choice. The option to rescind or cancel a sales contract in certain conditions, for example a defect in the goods. The jurists have

		traditionally recognised different types of <i>khiyar</i> , including <i>Khiyar al-ruyah/roy'at</i> , <i>khiyar al-aib/ayb</i> , <i>khiyar al-shart</i> , <i>khiyar al-majlis</i> .
Khiyar Aib/Ayb	al-	An option of dissolving the contract on discovery of defect.
Khiyar Ghabn	al-	An option of the buyer to cancel the contract on knowing that the seller has sold the goods at price far higher than the market price.
Khiyar-e-Majlis Khiyar al-Majlis		An option whereby the parties have right to withdraw from a contract so long as the parties do not leave the place of contract.
Khiyar Naqad	al-	An option where the seller has the right to cancel the contract if the buyer does not make payment by a certain agreed date.
Khiyar Ro'yat	al-	Option to rescind a sale contract after physical inspection of the object of sale.
Khiyar al-Shart		An option to cancel a previous agreed sale within a specific number of days.
Khiyar al-Wasf		An option to be exercised due to the absence of a desired quality in the goods.
Khiyar al-Tayin		An option of determination, where a person having purchased two or three things of the same kind, stipulates a period to make selection out of the purchased stock.
Kifala		See <i>Kifalah</i>
Kifalah		Surety, <i>Kifalah</i> means an obligation in addition to an existing obligation in respect of a demand for something. Lit: responsibility or suretyship. In <i>kafalah</i> , a third party becomes surety for the payment of debt. It is a covenant/ pledge given.

Koran	See <i>Qur'an</i> .
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Glossary of Financial Terms - J

This glossary is not limited to Islamic terms and contains Arabic and English terms that are also referred to in the study of Islamic economics, banking and insurance.

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Jafri	"The school in Islamic jurisprudence of the Shia branch of Islam developed by Imam Ja'far al-Sadiq (d. 765) at about the same time its Sunni legal fiqh counterparts were being codified. It was distinguished from Sunni law "on matters regarding inheritance, religious taxes, commerce, and personal status." Al-Sadiq is said to be highly respected by both Shia and Sunni Muslims for his great Islamic scholarship, pious character, and academic contributions. The schools of Sunni branch of Islam commonly referred to are Hanafi, Hanbali, Maliki, Shafi'i and, to a lesser extent, Zahiri.
Jahala	Lack of knowledge, ignorance. In contracts, it refers to lack of information on the subject, or ambiguity the terms and conditions of the contract. Also refers to uncertainty, conjecture. An unspecified element in the quality, quantity or price of things. Also known as Ju'hala.
Jahiliyyah	Lit: in the days of ignorance. The so-called pre-Islamic period. Muslims use the term to refer to the period just before the coming of Prophet Muhammad (pbuh) and more generally the state of affairs which characterised this period.
Jahl	See Jahala.
Ja`iz	Non binding contract.
Ji'ala	See Jua'lah.

Ji'alah	See Jua'lah.
Jihad	Striving or determined effort in the way of God.
Jizyah	Root meaning is compensation; the poll tax formerly paid by members of other religious groups in a Muslim state for protection of life and property and maintaining their own customs - Muslims on the hand had to pay Zakat as part of their religious obligation to help the poor and needy.
Ju'alal	See Jualah
Ju'ala	See Jua'lah
Jua'lah	<p>Rendering a service against a reward; service Fee. Lit: stipulated price for performing any service. Performing a given task for a prescribed fee in a given period. Technically applied in the model of Islamic banking by some. Bank charges and commission have been interpreted to be ju'alah by the jurists and thus considered lawful. Also known as Ju'l, J u'ala.</p> <p>Some Islamic Banks give loans with service charge. The Council of the Islamic Fiqh Academy established by the Organisation of Islamic Conference in its third session held in Amman, Jordan from 8 to 13 Safar 1407 H (11-16 October 1986), in response to a query from the Islamic Development Bank has resolved that it is permitted to charge a fee for loan related service offered by an Islamic Bank. However, this fee should be within actual expenditures and any fee in excess to actual service related expenses is forbidden because it is considered usurious. The service charge may be calculated accurately only after a certain period when all administrative expenditure has already been incurred e.g. at the end of the year. Hence, it is permissible to levy an approximate charge on the client, then, reimburse or claim the difference at the end of the accounting period when actual expenses on administration become precisely known.</p>
Ju'hala	See <i>Jahala</i>
Jumhur Ulama	In accordance with opinion of most scholars.

Glossary of Financial Terms - I

This glossary is not limited to Islamic terms and contains Arabic and English terms that are also referred to in the study of Islamic economics, banking and insurance.

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Ibnu Sabil	"Lit.: ibnu sabil is an expression for musafir. Musafir are people who are travelling. Although an ibnu sabil has living means, the person can receive zakat in case of problems in accessing provisions during travelling."
Ibaha	Lit: permissibility. <i>Ibaha</i> refers to the rule that every economic transaction is mubah (permissible) unless expressly and specifically forbidden by the <i>Shari'ah</i> .
Ibadat	Worship or Ritual act
IFI	Islamic Financial Institution
Ihsan	Carrying out noble deeds to the creatures of <i>Allah</i> without expecting any worldly rewards from them but doing it for the pleasure of Almighty God. Also <i>Al-Ihsan</i> .
Ihtikar	Hoarding: the prohibited practice of purchasing essential commodities, such as food and storing them in anticipation of increase in prices.
Ijab	Offer (in contract). Opp. <i>Qabul</i> .
Ijarah (1)	Lit: letting on lease. Technically, sale of a definite usufruct in exchange for a definite reward. Commonly used for wages, it also refers to a contract of land lease at a fixed rent payable in cash. It is contrary to " <i>Muzarah</i> " when rent is fixed as a certain percentage of the produce of land. It also refers to a mode of financing adopted by Islamic banks. It is an

	<p>arrangement under which an Islamic bank leases equipment, a building or other facility to a client against an agreed rental. The rental is so fixed that the bank gets back its original investment plus a profit on it.</p>
Ijarah (2)	<p>A form of leasing contract in which there is a transfer of ownership of service (for use of an asset) for a specified period for an agreed upon lawful consideration. Instead of lending money on interest, Ijarah allows a financial institution to earn profits by charging rentals for the use of the asset. Often used by Islamic banks for financing. Under this scheme of financing an Islamic bank purchases an asset as per specification provided by the client. The period of lease and the lease rental fee are set in advance and may be determined by mutual agreement according to nature of the asset. During the period of the lease, the asset remains in ownership of the bank (as lessor), but the client (as lessee) has the right to use it.</p>
Ijarah Sukuk	<p>A <i>Sukuk</i> (Islamic bond) having Ijara as an underlying structure. See <i>Sukuk</i> and <i>Ijarah</i>.</p>
Ijarah Muntahia-bi-tamleek	<p>A lease ending in the transfer of the ownership to the lessee in such a way that the lease and sale are kept separate and independent transactions. Use of the this term for leasing is better known as <i>Ijarah wa iqtina</i>, as the latter tends to give the impression that the <i>Ijarah</i> and the sale are working side by side when actually they have to be two separate deals to fulfil the <i>Shari'ah</i> requirement. See <i>Ijarah wa iqtina</i>. <i>Ijarah Mausufah bi Zimmah</i> (a) An unidentified unit of asset is leased in the form of a forward lease. (b) A lease contract where the lessor undertakes to provide a well-defined service or benefit without identifying any particular of assets rendering the related service. Of a unit of the asset is destroyed, the contract is not terminated and the lessor provides another such unit.</p>
Ijarah Thuma Bai	<p>Leasing to purchase. The principle governing an Ijarah contract that allows the lessee (the bank client) to purchase the leased asset for an agreed price though a separate purchase contract.</p>
Ijarah wa-iktina	<p>Lease purchase. Also known as <i>Ijara wa iqtina</i>.</p>
Ijarah wa iqtina	<p>Lease and purchase transaction. Like <i>Ijara</i>, except that it is pre-agreed that at the end of the lease period the client will purchase the leased asset from the bank, after all rental fees are paid for the length of the lease period. The lease rentals include a part of the purchase price so that at the end of the lease period the bank gets back its principal sum</p>

	<p>along with some pre-determined profit. At the end of the lease period, the leased asset is often sold to the client for a nominal value. As a mode of financing by way of hire-purchase, adopted by Islamic banks but different from conventional hire-purchase. Under the agreement an Islamic bank purchases an asset such as an equipment giving it on lease against payment of agreed rentals together with an undertaking or promise that the ownership will be transferred to the lessee; the undertaking or promise does not become part of the lease contract to make it conditional. Ownership is transferred through a separate contract of sale or gift. Also termed as <i>Ijarah Muntahia-bi-tamleek</i>.</p>
Ijarah with Diminishing Musharakah	<p>The principle is used for home purchased or Islamic mortgages. Combining <i>Ijarah</i> with Diminishing <i>Musharakah</i> allows the bank or lender and the client enter into an agreement to jointly purchase a house, the client pays rentals for the use of the bank's share along with an additional payment towards purchase of the bank's share. Over time, the bank's share is reduced and is gradually acquired by the client. When the bank's share is fully acquired, the bank transfer the ownership to the client. This principle may also be used to acquire any other asset.</p>
Ijma	<p>Consensus, usually on a given issue as represented by the agreement of the jurists. It has traditionally been recognised by most jurists as an independent source of Islamic law, along with the <i>Qur'an</i>, <i>Sunnah</i> and <i>Qiyas</i> (analogical deduction).</p>
Ijtihad	<p>Lit: effort, exertion, diligence. Independent or innovative legal reasoning or interpretation (by qualified Islamic legal scholars) to formulate a ruling on a given issue on the basis of evidence found in Islamic sources.</p>
Illah	<p>The attributer of an exchange or event that entails a particular Divine ruling cases possessing that attribute- cause of Prohibition of specific exchange contracts. Illah is the basis for applying analogy for determining permissibility or otherwise of any transaction.</p>
Ilm (ilm)	<p>Knowledge</p>
Ikhtiyar	<p>Choice. Is to reach an opinion from choice among views already propounded by past scholars;</p>
Imam	<p>Lit. leader. Guide or ruler. Head of a religious community.</p>

Iman	Personal faith, conviction or belief.
Inah	See <i>Bai al-Inah</i> .
Inan	A type of <i>Shirkah</i> : a form of partnership in which each partner contributes capital and has the right to work for the business but not necessarily equally.
Infaq	Sending. In the literature of Islamic economics , It usually refers to spending on poor, orphan, Traveler or the people who are unable to return their debts.
Insurance	Pooling of risks and many individuals and business entities and transforming them to an insurer/insurance company or a large group in return for payment of a premium.
Iqtisad	Lit: moderation. It refers to Islamic approach to economic problems.
Islah	Reform
Islam	"The Arabic term 'Islam', meaning submission, which dictates that a believer submit to the will of Allah, conforming inwardly and outwardly to His laws. The word islam is also derived from the word silm which means peace."
Islamic banking	Financial services that comply with the requirements of the <i>Shari'ah</i> . While designed to meet the requirements of the <i>Shari'ah</i> , Islamic banking is not restricted to Muslims; both the financial services provider and the client can be non-Muslims so long as they agree to abide by the requirement of the <i>Shari'ah</i> . Synonym with Islamic finance or Islamic financial services.
Islamic finance	See Islamic banking
Islamic Financial	Abbr. IFI

Institution	
Islamic Financial Services	See Islamic banking
Israf	Wasteful expenditure, unnecessary financial yoke.
Istihsan	Juristic preference. In Islamic jurisprudence, it refers to departure from the application of a ruling on an exceptional basis by taking a lenient view of an act that may otherwise cause unfairness or distress.
Istijar	Hiring, renting; another term less frequently used for Ijarah.
Istijrar	A recurring or repeat sale for continuous purchase. A master agreement between a buyer and supplier which facilitates purchasing of goods on ongoing basis (such as monthly) without explicit offer and acceptance each time; the price is fixed either upfront or concluded after a predetermined period which is subject to certain conditions.
Istislah	Consideration of public interest
Istisna'a	A contract of sale of specified goods to be manufactured; an order to manufacture (for purchase) allowing for cash payment in advance or progressively and goods are manufactured and delivered later. It is a condition in <i>istisna'a</i> that the seller provides either the raw material or the cost manufacturing the goods as an advance payment. <i>Istisna'a</i> can be used for financing the manufacture or construction of fixed assets, real estate, plant, bridges, roads and highways that involves a deferred manufacturing or construction contract; a contract of acquisition of goods by specification or order where the price is paid progressively in accordance with the progress of a job or project and takes the form of (progressive financing. There is an obligation on the manufacturer to deliver the goods on completion, an example would be for the purchase of a house to be constructed, payments are made to the developer or builder.
ITFO	Import Trade Finance Operations.

Glossary of Financial Terms - H

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Hadith	A record of the sayings, deeds or tacit approval of the Prophet Muhammad (pbuh) - the <i>Sunnah</i> .
Hadah	Donation.
Hajj	Pilgrimage to Makkah combined with other holy places. Hajj, the fifth pillar of Islam, is a duty on every Muslim who is financially and physically able to carry it out, at least once in his/her lifetime.
Halal	That which is permissible by the <i>Shari'ah</i> , valid earnings. The concept of halal has spiritual overtones. In Islam there are activities, professions, contracts and transactions which are explicitly prohibited (<i>haram</i>) by the <i>Qur'an</i> or the <i>Sunnah</i> . Barring them, all other activities, professions, contracts, and transactions etc. are halal. This is one of the distinctive features of Islamic economics vis-a-vis Western economics where no such concept exists. In Western economics, all activities are judged on the touchstone of economic utility. In Islamic economics, other factors, mostly ethical and moral are also involved. An activity may be economically sound but may not be allowed in the Islamic society if it is not permitted by the <i>Shari'ah</i> .
Hamish Jiddiyah	Token money, down Payment.
Hanafi	"One of the four well-known schools of thought in Islamic jurisprudence or religious law engaged in the interpretation of the <i>Qur'an</i> and <i>Sunnah</i> . Founded by one of the classical jurists, <i>Imam Abu Hanifa</i> (d. 765 AD), followers of this school are known as <i>Hanafi's</i> . Others are <i>Hanbalis</i> , <i>Malikis</i> and <i>Shafi'is</i> . <i>Zahiri</i> is another known school developed by Daud ibn Khalaf (d. 883 AD). The Jafri Shia Islam school in Islamic jurisprudence was developed by Imam Ja'far al-Sadiq (d. 765) at about

	the same time its Sunni legal fiqh counterparts were being codified. It was distinguished from Sunni law "on matters regarding inheritance, religious taxes, commerce, and personal status."
Hanafi'i	See <i>Hanafis</i>
Hanbali	"One of the four well-known schools of thought in Islamic jurisprudence or religious law engaged in the interpretation of the <i>Qur'an</i> and <i>Sunnah</i> . Founded by one of the classical jurists, Imam Ahmad Hanbal (d. 855 AD), follower of this school is known as Hanbalis. Others are Hanafis, Malakis and Shafi'is. The Hanbali is considered the hardest in terms of social and personal rules. ahiri is another known school developed by Daud ibn Khalaf (d. 883 AD). The Jafri Shia Islam school in Islamic jurisprudence was developed by Imam Ja'far al-Sadiq (d. 765) at about the same time its Sunni legal fiqh counterparts were being codified. It was distinguished from Sunni law "on matters regarding inheritance, religious taxes, commerce, and personal status."
Haram	Unlawful in Islam. Activities which are forbidden or prohibited according to <i>Shari'ah</i> . This also includes contracts and transactions as well as earnings. Opp. <i>Halal</i> .
Hawala	See <i>Hawalah</i>
Hawalah	Lit.: transfer; technically, a contract that allows a debtor to pass on the responsibility of payment of his/her debt to a third party who owes the former a debt. Thus the responsibility of payment is ultimately shifted to a third party. It also refers to the document by which the transfer takes place, such as a bill of exchange, promissory note, cheque or draft. The mechanism of Hawalah is used for settling accounts by book transfers without the need for physical transfer of cash.
Hesab takaful al	<i>Takaful Ta'auwuni</i> Account
Hibah	Gift, donation. A gift given in permanent ownership to someone on voluntary basis, without any consideration in exchange or in return for a loan or benefit obtained. Tech: transfer of a determinate property (mal) without any material consideration.

Hikmah	Rationale, Wisdom behind any course of action or injunction.
Hila	A forbidden structure used for the purpose of attaining a desired legal outcome or achieving legitimate ends. A transaction which appears permissible, but is in fact structured in an un-islamic way. Ruses, tricks and devices used in transactions to circumvent the basic prohibitions.pl. <i>Hiyal</i> .
Hilah	See <i>Hila</i> .
Hisbah	A term used by the classical Muslim jurists to describe the function carried out by the state or appropriate Islamic authority to regulate the market place. It includes whatever steps may be needed in order to maintain a fair and orderly market place.
Hiyal	See <i>Hila</i> .
Hukm	See <i>Hukum</i> .
Hukum	In <i>Fiqh</i> , the Shari'ah ruling associated with any action; rules, provisions and laws includes Allah's command's/norms/values for individual believer.
Husah	Lit: pebbles. A type opf sale that was prtices by the Arabs in the <i>Jahiliyyah</i> in which the sale was dterminted by casting of pebbles. This practice was prohibited by Prophet Muhammad (pbuh) because of the uncertainty (<i>gharar</i>) which characterised the contract which governed it.

Glossary of Financial Terms - G

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Garam	Damage, Loss, as in <i>Takaful</i> .
Ghaban	Misappropriation or defrauding others in respect of specifications of the goods and their prices.
Ghaban-e-Fahish	Excessive profiting with deception, exorbitant price.
Gharar (1)	<p>Lit: uncertainty, hazard, chance or risk. Technically, sale of a thing which is not present at hand; or the sale of a thing whose consequence or outcome is not known; or a sale involving risk or hazard in which one does not know whether it will come to be or not, such as fish in water or a bird in the air. It is an exchange in which one or more parties stand to be deceived through ignorance of an essential element of the exchange. Thus it refers to an element of absolute or excessive uncertainty in any business or contract. Gambling (qimar) is a form of gharar because the gambler is ignorant of the result of the gamble. (<i>gharar</i> one of the three fundamental prohibitions in Islamic finance, the other two being <i>riba</i> and <i>maysir</i>). The Hanafi school of Islamic jurisprudence defined gharar as "that whose consequences are hidden." The <i>Shafi'</i> school defined <i>gharar</i> as "that whose nature and consequences are hidden" or "that which admits two possibilities, with the less desirable one being more likely." The <i>Hanbali</i> school defined it as "that whose consequences are unknown" or "that which is undeliverable, whether it exists or not." Ibn Hazn of the <i>Zahiri</i> school wrote "<i>Gharar</i> is where the buyer does not know what he bought, or the seller does not know what he sold."</p>
Gharar (2)	<p>"Deception through ignorance by one or more parties to a contract. Gambling is a form of gharar because the gambler is ignorant of the result of the gamble. There are several types of gharar, all of which are <i>haram</i>. The following are some Examples:</p> <ul style="list-style-type: none"> * Selling goods that the seller is unable to deliver * Selling known or unknown goods against an unknown price, such as selling the contents of a sealed box * Selling goods without proper description, such as shop owner selling clothes with unspecified sizes * Selling goods without specifying the price, such as selling at the 'going price' * Making a contract conditional on an unknown event, such as when my friend arrives if the time is not specified * Selling goods on the basis of false description * Selling goods without allowing the buyer the properly examine the goods"

Gharar (3)	<p>"Uncertainty in a contract of exchange as to the existence of the subject matter of the contract and deliverability, quantity or quality of the subject matter. It also involves contractual ambiguity as to the consideration and the terms of the contract. Such ambiguity will render most contracts invalid. The root <i>Gharar</i> denotes deception; an exchange in which there is an element of deception either through ignorance of the goods, the price, or through faulty description of the goods. Thus, one or both parties stand to be deceived through ignorance of an essential element of exchange. Gambling is a form of gharar because the gambler is ignorant of the result of the gamble. Speculative risk-taking in commerce, which involves the investment of assets, skills and labor, is not considered similar to gambling. This is because the buyer is engaged in a transaction aimed at making profit through trading and not through dishonest appropriation of the property of others. The prohibition on <i>gharar</i> is often used as the grounds for criticism of conventional financial practices such as short selling, speculation and derivatives."</p>
Gharar-fil-Sifah	Uncertainty with respect to characteristics of the goods.
Gharar-fi-al-Ajal	Uncertainty with respect to time of the delivery.
Gharar-fi-al-Miqdar	Uncertainty with respect to quantity of goods.
Gharar-fi-al-Taslim	Uncertainty with respect to delivery of the goods.
Gharar Yasir	A small amount of <i>gharar</i> that may be unavoidable.
Gharim	<p>A debtor who does not possess the fund with which to repay his/her debt. According to the <i>Hanifi</i> jurists, a <i>gharim</i> is one whose funds, after repayment of his debt, would not equal the nisab. The <i>Shafi</i> and <i>Maliki</i> jurists divide gharim into two types: i) those whose debts were incurred in their own benefit and 2) those whose debts were incurred benefiting others. The <i>gharimun</i> (pl. for <i>gharim</i>) are one of the eight groups mentioned in the <i>Qur'an</i> as legitimate recipients of the <i>Zakat</i> funds.</p>
Ghosh	Feud, as in <i>Takaful</i> .

Glossary of Financial Terms - F

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Fadl	Excess, additional, surplus, as in <i>Takaful</i> .
Fadl-al-Allah	The bounties bestowed by the Almighty <i>Allah</i> .
Falah	Success, to thrive. Technically, it implies success both in this world and in the Hereafter (<i>Akhirah</i>).
Faraid	The section of Islamic law that deals with the distribution of the estate of a deceased persons among his/her heirs accordance with Allah's decree in the <i>Qur'an</i> and the <i>Hadith</i> .
Fasid	Voidable. A forbidden term in a contract, which consequently renders the contract invalid. A voidable or defective contract due to non-fulfillment of any condition required for valid contracts.
Fatwa	A religious decree. A ruling made by a competent Shari'ah scholar on a particular issue, where <i>fiqh</i> (Islamic jurisprudence) is unclear. It is an opinion, and is not legally binding. It may address either a specific problem of interest to a particular person or a matter of public concern.
Fatwah	See <i>Fatwa</i> .
Fayed	Surplus, as in <i>Takaful</i> .

Fictitious Assets	Asset having no tangible existence.
Fitrah	Law of nature.
Faqih	Jurist who gives rulings on various juristic issues in the light of the <i>Qur'an</i> and the <i>sunnah</i> .
Fiqh	Refers to the whole corpus of Islamic jurisprudence. In contrast to conventional law, <i>fiqh</i> covers all aspects of life - religious, political, social, commercial, and economic. <i>Fiqh</i> is based primarily on interpretations of the <i>Qur'an</i> and the <i>Sunnah</i> and secondary sources that are supported by the <i>Qur'an</i> and the <i>Sunnah</i> . <i>Fiqh</i> may also be understood as the jurists' understanding of the <i>Shari'ah</i> . There are four major schools of Islamic thought.
Fiqih	See <i>Faqih</i> .
Fiqh al-mua'malat	Islamic commercial jurisprudence, jurisprudence of financial transactions or the rules of transacting in a <i>Shari'ah</i> -compliant manner.

Glossary of Financial Terms - E

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A B C D E F G H I J K L M N P Q R S T U W Z

Ekrar	Declaration, as in <i>Takaful</i> .
Eshtirak	Contribution, as in <i>Takaful</i> .

Glossary of Financial Terms - D

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Dalil	A scientific argument based on reason.
Daman	Guarantee, security. Taking responsibility. Also see <i>Kafalah</i> .
Daman Khatar Al-Tariq	Guarantee against the travel hazards. An arrangement of mutual assistance in which losses suffered by traders during journeys due to hazards were indemnified from jointly pooled funds.
Daruirah	See <i>Darura</i> .
Darura	Necessity, overriding necessity. Adopting a ruling, even one that may contravene a Shari'ah rule, when one is compelled by extreme necessity, usually life or death (Usually used for the "Doctrine of Necessity," whereby something otherwise prohibited becomes temporarily permissible)
Darurah	See <i>Darura</i> .
Da'wah	Claim, as in <i>Takaful</i> .
Dayn	Debt. A dayn comes into existence as the result of any contract or credit transaction.

Deen	It refers to a complete code of life prescribed in Islam.
Din	See <i>Deen</i> .
Dhaman	See <i>Daman</i> .
Dhimmah	Responsibility, term used in <i>Takaful</i> .
Dinar	Currency in the form of gold coins that was used in the past. The term is still used in some Muslim countries, like Iraq.
Dirham	Name of a currency unit, usually a silver coin, used in the past in several Muslim countries. The term is still used in some Muslim countries, such as Morocco and United Arab Emirates.
Diminishing Musharakah	See <i>Musharakah</i> , Diminishing
Dunya	This "world". <i>Dunya</i> literally means 'closer' or 'lower. Life in this world temporal world - and its earthly concerns and possessions.
Duyoon Haalah	Dayn / Debts that have become due or can be called back at any time.
Duyun Mu'ajalah	Time of payment settled between the creditor and the debtor and the debt is not yet due.

Glossary of Financial Terms - C

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A B C D E F G H I J K L M N P Q R S T U W Z

Commodity Murabaha	See <i>Murabaha</i> , <i>commodity</i>
Commutative	Relating to, involving, or characterised by substitution, interchange, or exchange. Legal term in which one in which each of the contracting parties gives and, receives an equivalent. The contract of sale is of this kind. The seller gives the thing sold, and receives the price, which is the equivalent. The buyer gives the price and receives the thing sold, which is the equivalent.
Cost-plus Financing	See <i>Murabaha</i> .

Glossary of Financial Terms - B

This glossary is not limited to Islamic terms and contains Arabic and English terms that are also referred to in the study of Islamic economics, banking and insurance.

A B C D E F G H I J K L M N P Q R S T U W Z

Bai	Stands for “sale” or contract of sale. It is often used as a prefix in referring to different sales-based modes of Islamic finance, such as <i>Murabahah</i> , <i>Istisna’a</i> , and <i>Salam</i> .
Bai al-Arbun	See <i>Arbun</i> .
Bai Al Amanat	Fiduciary sales like <i>murabaha</i> and <i>wadi’ah</i> .

Bai al Inhah	Buying an object for cash then selling it to the same party for a higher price whose payment is deferred so that the purchase and sale of the object serves as a ruse for lending on interest. It involves some Islamic banks selling of an asset to the client through deferred payments. At a later date, the bank will repurchase the asset and pay the client in cash terms. Similar to <i>tawarruq</i> however in <i>tawarruq</i> a third party is involved as an intermediary. Also known as <i>Bay-al Inah</i> .
Bai' al khiyar / Kiyar	See <i>Khiyar</i> . Option to rescind the sale.
Bai' al Mutlaq	Conclude a sale without any option to rescind.
Bai' al Muqayaza	Exchange of goods with goods is called barter.
Bai al-salam	See <i>Salam</i> .
Bai Baatel	See <i>Batil</i> .
Bai bithaman ajil	This contract refers to the sale of goods on a deferred payment basis. Equipment or goods requested by the client are bought by the bank which subsequently sells the goods to the client at an agreed price which includes the bank's mark-up (profit). The client may be allowed to settle payment by instalments within a pre-agreed period, or in a lump sum. Similar to a <i>Murabaha</i> contract, but with payment on a deferred basis.
Bai Mu'ajjal	Lit.: a credit sale or deferred payment contract. Technically, a financing technique adopted by Islamic banks, It is a contract in which the seller allows the buyer to pay the price of a commodity at a future date in a lump sum or in installments. The price fixed for the commodity in such a transaction can be the same as the spot price or higher or lower than the spot price.
Bai Salam	See <i>Salam</i> .
Bai-sarf	See <i>Sarf</i> .

Bai wafa	Buy-back, sale and repurchase, a contract with the condition that when the seller pays back the price of goods sold, the buyer returns the goods to the seller.
Barakah	Blessing.
Bay	See <i>Bai</i> .
Bay'al ayan	Sale of tangible objects such as goods (as opposed to sale of services or rights).
Bay al-dayn	Sale of debt. According to a large majority of <i>fuqaha'</i> , debt cannot be sold for money, except at its face value, but can be sold for goods and services.
Bay' al-Gharar	See <i>Gharar</i> .
Bayu al-ghararg	Trading in risk, where the Arabic word <i>gharar</i> is taken to mean "risk".
Bay al-ina	See <i>Bai al-Inah</i> .
Bay-al Inah	Also known as <i>Bai ah Inah</i> . Buying an object for cash then selling it to the same party for a higher price whose payment is deferred so that the purchase and sale of the object serves as a ruse for lending on interest. At a later date, the bank will repurchase the asset and pay the client in cash terms. Similar to <i>tawarruq</i> however in <i>tawwaruq</i> a third party is involved as an intermediary.
Bay al-kali bil kali	A sale in which both the delivery of the object of sale and the payment of its price are delayed. It is similar to a modern forward sale contract.
Bay al-mudaf	A sales contract in which delivery of both the commodity and the payment is deferred - for example forward sales in modern times. Such contracts are not permitted by the Shari'ah.

Bay bi thaman al-ajil	Another term used for <i>Bai Mu'ajjal</i> .
Bay muzayadah	Sales by auction.
Bayt-al-Mal	Public Treasury in the Islamic State.
Batil	Null and void. Invalid sale or contract. One that does not fulfil the conditions relating to offer and acceptance, subject matter or the consideration and possession or delivery of the subject matter or involves some contravention of the Shari'ah, such as the involvements of <i>riba</i> , <i>gharar</i> or <i>qimar</i> . Also termed as <i>Aqd Batil</i> and <i>Bai Baatel</i> . Opp. <i>Sahih</i> .
Baitl al-Mal	See <i>Baitl Mal</i> .
Baitl Mal	Treasury. Also known as <i>Bayt al-Mal</i> .

Glossary of Financial Terms - A

This glossary is not limited to Islamic terms and contains Arabic and English terms that are also referred to in the study of Islamic economics, banking and insurance.

A B C D E F G H I J K L M N P Q R S T U W Z

Aakhira	Life in the Hereafter
Al Adl	See <i>Adl</i> .

Al-Ajr	See <i>Ajr</i> .
Al-bai	See <i>Bai</i> .
Adl	A general term which conveys the meaning of justice, equity and fairness.
Al-Ghurm bil Ghunm	The principle that one is entitled to a gain only if one agrees to bear the responsibility for the loss. Earning profit is legitimised only by risk-sharing and engaging in an economic venture. This provides the rationale and the principle of profit-sharing in <i>Shirkah</i> (partnership) arrangements.
Ahad	One. Inherently one (God).
Ahkam	Plural of <i>Hukum</i> .
Ajr	A payment or compensation such as commission, fees or wages charged for services.
Ajr-un-kareem	A generous reward.
Al-Ihsan	See <i>Ihsan</i> .
Al-kharaj bil daman	Link of exposure to risk, one can claim profit only if one is ready to bear the business risk, if any. The principle in Islamic jurisprudence that entitlement to return or yield (<i>al-kharaj</i>) is for the one who bears the liability (<i>daman</i>) for something, say an asset, and one who does not bear the liability has no claim to the yield.
Alim	One who knows. See <i>Ulama</i> .
Allah	The name for God in Islam. The concept of Allah, is the only real supreme being, all-powerful and all knowing Creator, Sustainer, Ordainer, and Judge of the universe. Islam puts a great emphasis on the conceptualisation of God as strictly singular (<i>tawhid</i>). God is unique (<i>wahid</i>) and inherently one (<i>ahad</i>), all-merciful and omnipotent. Islam

	teaches that Allah is the same God worshiped by the members of other Abrahamic religions such as Christianity and Judaism.
Al-mal	See <i>Mal</i> .
Amanah	Trust. Lit.: reliability, trustworthiness, loyalty, honesty. Technically, an important value of Islamic society in mutual dealings; it also refers to deposits in trust. A person may hold property in trust for another, it entails the absence of any liability for loss, except for breach of duty. By extension, the term can also be used to describe different financial or commercial activities such as deposit taking, custody or goods on consignment. Deposits in current accounts (usually non-interest bearing) with Islamic banks are regarded as <i>Amanah</i> . If the bank obtains authority to use the funds in the current accounts to invest in its business, <i>Amanah</i> transforms into a loan from the depositor to the bank and the bank is liable to repay the full amount in the current account, irrespective of profit or loss made by the bank.
Ameen	See <i>Amin</i>
Amil	Literally it means worker. One who performs a task, an agent. One who deserves compensation for performing a task, such as the <i>mudarib</i> (manager) in a <i>mudarabah</i> contract or a <i>zakat</i> collector. However, in <i>Fiqh</i> it also refers to the working partner in <i>mudarabah</i> contract. Under this contract, one partner provides the capital and the other provides the labour who is called <i>amil</i> or <i>mudarib</i> .
Amin	One who holds honestly the trusts of other people; trustworthy.
Al-Quran	See <i>Qur'an</i> .
Al-Rahn	See <i>Rihn</i> .
Ariya	Loan, which means to give any non-fungible commodity to another for use, without taking any return for its use.
Al-Sar-al-Adl	The just price.

Al-Sarf	See <i>Sarf</i> .
Al-wadia	See <i>Wadiah</i> .
Al-Wakala	See <i>Wakalah</i> .
Al-Wakala al Mutlaqa	Absolute power of attorney.
Amwal	Plural of <i>Mal</i> which means worldly possessions including both property and money (wealth).
Aqd	Contract, Agreement, Bond. Synonymous with the word "contract" in modern law.
Aqd Batil	See <i>Batil</i> .
Aqd-al-Bay	A contract of sale.
Aqd-al-Ijara	See <i>Ijarah</i> .
Aqd-al-Muawadah	A contract of exchange in which compensation is given against the goods or services received.
Aqd-al-Musharakah	See <i>Musharakah</i> .
Aqd-al-Qard	A loan contract. Also known as <i>Qard</i> .
Aqd-al-Wadia	See <i>Wadia</i> .

Aqd Ghair Lazim	A contract in which any one of the parties has a unilateral right to revoke it with the consent of the other(s).
Aqd Lazim	A contract in which none of the parties has a unilateral right to revoke it without the consent of the other(s).
Aqd Tabarru	<i>See Tabarru.</i>
Aqidah	Belief, faith.
Aqilah	Kin or persons of relationship who share responsibility.
Aql	Intellect.
Aaqilah	Mutual Help, which was an arrangement of mutual help or indemnification customary in some tribes at the time of the Prophet Muhammad (pbuh).
Arbun	A non-refundable down payment or deposit paid by a buyer for the right to purchase goods at a certain time and certain price in future; if the right is exercised, it becomes part of the purchase price. If the buyer does not complete the purchase or backs out for any reason, the seller has the option to forfeit the deposit. Also known as Urboun and Bai al-Arbun
Awqaf	Plural of Waqf, meaning trust. Also see Waqf.
Aya	<i>See Ayat.</i>
Ayah	<i>See Ayat.</i>
Ayat	A verse or passage in the Qur'an.
A'yaht	<i>See Ayat.</i>

Ayn	Refers to currency or ready money. Ayn is often contrasted with Dayn.
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